JUNE 1991

INDUSTRIAL DISTRIBUTION

THE MANAGEMENT AND SALES MAGAZINE FOR DISTRIBUTORS

EXCLUSIVE

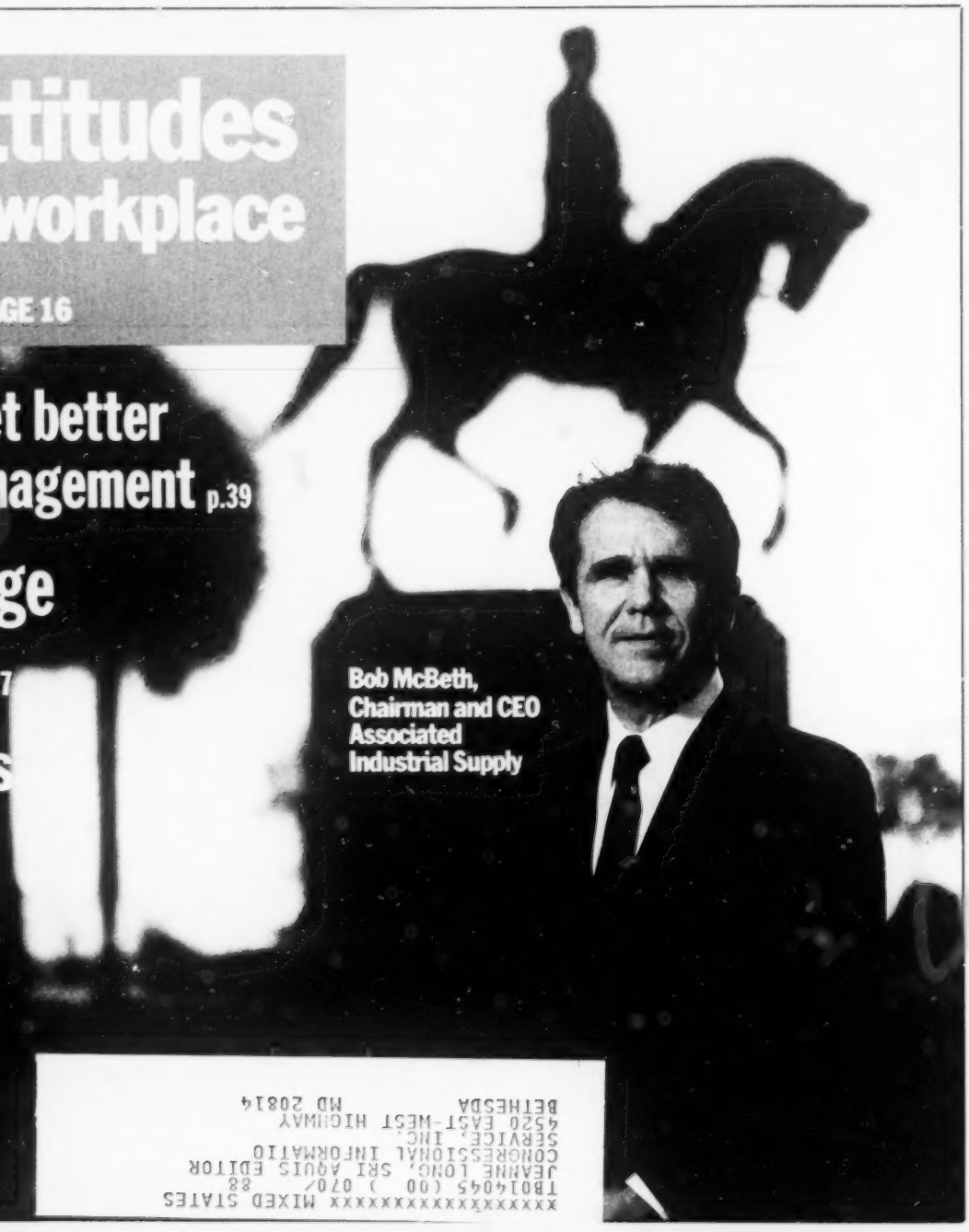
Power tool update p.9

AIS attitudes reduce workplace losses PAGE 16

How to get better sales management p.39

Rep image shines p.27

Auto talks key to future p.68



Bob McBeth, Chairman and CEO Associated Industrial Supply

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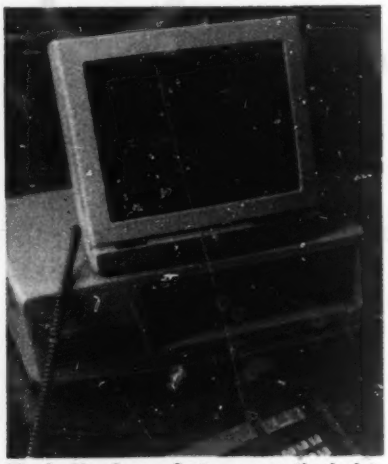
Bob McBeth found a way to make workers partners in productivity.—p. 16

Independent reps develop clout as key members of the marketing team.—p. 27



The On Line Access System means timely data to Fulton Supply and Armstrong Bros.—p. 32

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Distributors need '90s finance savvy

NAW says many accessible financing sources remain untapped.

While distributors complain about the credit crunch, they seldom investigate all financing options. So says a joint study from Deloitte & Touche and the National Assn. of Wholesalers (NAW).

The study, which is based on responses from 463 wholesale distributors and 40 financial experts, provides distributors with advice on where to find additional sources of funding. And judging from the results of the report, distributors could use the help.

Some facts: Ninety-three percent of distributors surveyed rely on operations generated capital (see chart). Sixty-six percent of the respondents say their financing comes from owner funding, with bank loans supplying another 62%. And, if you own a small or medium-size distributorship, odds are one-in-three that you supply all your company's capital.

"Those methods create no new class of investors or creditors, but they are erratic sources of financing," says Deloitte & Touche's Paula Charles. "The reason for this is that one year the company may earn $10 million, the next year $2 million—creating what financial people call a 'volatile' investment flow."

The lender's view

Before distributors can attract the best financing, they must put their financial data in "marketable" order. They need to improve their market research and documentation, analyze data and develop a well-presented strategy.

How do lenders view distributors as investment potential? Overall, distributors get fair to poor grades, mostly due to lack of financial savvy. According to the study, "capital markets regard the wholesale distribution industry as a good financing subject, but criticize it for declining margins; poor information reporting; over-dependence on a single product, supplier or customer; undercapitalization; and lack of financial management depth."

The study lists several financing options for industrial distributors. They include:

[*Continued on p. 11*]

Kudos coming to PT supplier

NEWTON, MASS.—Power transmission (PT) distributors should act now to recognize their most productive supplier salespeople. As part of our 2nd Annual supplier *Field Salesperson of the Year Award*, ID will once again work with the Power Transmission Distributors Assn. (PTDA) to honor technical and customer support contributions made by PTDA's Allied Member salespeople.

PT distributors may nominate up to three salespeople each. Nominating criteria focus on a field salesperson's dependability, knowledge of distributor operations, ethics, ability to convert product knowledge to sales, and awareness and understanding of the competitors' products as well as his or her own.

Distributors should look for the nominating ballots on p. 9 of this issue. Fill out the ballots, using additional sheets for commentary. Send the completed ballots to *Field Salesperson of the Year Award*, c/o INDUSTRIAL DISTRIBUTION, 275 Washington St., Newton, Mass., 02158. Deadline for completed ballots is Thursday, Aug. 15, 1991. ID

NAHAD sets record at Dallas meeting

DALLAS—High attendance by manufacturers and a record number of contact tables characterized the seventh annual meeting of the National Assn. of Hose and Accessories Distributors (NAHAD), held April 17-20 at Dallas' Loews Anatole Hotel.

"We listed more than 600 attendees going in, and we had quite a few additional attendees register at the last minute, too," says Joseph Thompson, executive vice president. "We were gratified by the response, particularly in light ot the economic situation."

Speakers at the convention included motivational speaker, Patricia Fripp, as well as Roger Staubach. Educational programs were led by Patrick Dolan, Arthur Andersen's Wholesale Distribution Industry Director, and Christopher Hegarty, nationally known management speaker and author. To complete the event, panel and roundtable discussions were also held.

Michael Summers, the trade group's new president, was pleased with the outcome of the convention. "The meeting raised as many questions as we could answer." ID

Finance savvy

- **Suppliers:** Many suppliers offer direct loans, extended terms and credit limits, inventory buy-back (or consignment placement) agreements, and joint venture financing.
- **Customers:** Similar to suppliers, customer sources can also involve joint ventures, inventory financing and outright loans.
- **Private Placements:** Medium-size insurance companies, pension and mutual funds, and private investors are funding sources through either direct sales of securities or as long-term business loans.
- **Venture Capital:** Distributors with excellent growth potential should investigate venture capital funding. But the stringent financial requirements and potential loss of autonomy are drawbacks.
- **Banks:** In addition to term loans, banks also offer lines of credit, cash management services and asset-based lending backed by accounts receivable or inventory.
- **Finance companies:** Non-bank financial institutions are regarded as a last resort. But finance companies, as they are less restricted by government regulation, are an alternative for smaller distributorships that banks are turning down now.
- **Government financing:** Few distributors may meet the requirements, but federally insured bank financing, industrial development bonds and Small Business Administration loans should be considered.
- **Public offerings:** The decision to go public requires careful analysis of capital requirements, earnings potential, investor interest, and market conditions. On the negative side going public is an expensive process, and one which can reduce management control.
- **Commercial paper:** Medium to large-sized distributorships, with highly rated account receivable balances, can obtain low-cost capital from short-term promissory notes, backed by receivables.—*By Diane Doucette*

Financing Wholesale Distribution in the 1990s *is available, prepaid, from* NAW. *The price is $90 for direct members, $120 for commodity members, and $160 for non-members. Add $4 for shipping costs, and send a check to* NAW, *1725 K St., N.S., Suite 710, Washington, D.C. 20006. Or, you may fax a credit card number and expiration date to (202) 785-0586.* ID

Study questions U.S. focus on quality

BOSTON—A new study says that U.S. manufacturers are so focused on catching up with the Japanese on quality, they may miss the next manufacturing trend.

The study of 500 manufacturers in the U.S., Japan and Europe, says that the Japanese have moved on to manufacturing's next phase—producing custom products to meet consumer demands.

Titled *Factories of the Future*, the report was jointly conducted by Boston University, Waseda University, Tokyo and by the European Institute for Business Administration (INSEAD), Fontainebleau, France.

The researchers found that manufacturers from the three major industrial regions are developing factories around very different strategies. American manufacturers focus mainly on quality improvement programs, creating the *value factory*. Europeans are planning the *borderless factory*, preparing for Europe 1992. And Japanese manufacturers, having achieved a high quality level, have created *design factories*, which produce more customized products.

When asked to comment on the survey, U.S. manufacturers and distributors had some strong views. For starters, Jake R. Nichol, vice president, sales, Stanley-Proto Industrial Tools, disputes the notion that the Japanese model is the cutting edge in manufacturing.

"We are more individualized in American manufacturing," Nichol says. "At Stanley, we have 10,000 product numbers, and will run small lots of 1,000 pieces each year. Our high value lots are typically run in lots of 40,000 pieces."

Nichol flatly disagrees with the report that the U.S. emphasis on quality endangers the nation's ability to compete. He says, "To focus on quality puts a manufacturer in jeopardy competitively only so much as focusing solely on any one aspect *exclusively* will." ID

ITW expands presence in auto sector

GLENVIEW, ILL.—Illinois Tool Works Inc. (ITW) purchased Milwaukee, Wis.-based Mellowes Co. in April for an undisclosed amount of cash.

Mellowes, a manufacturer of split ring lockwashers and cotter pins, will join ITW's Shakeproof-Industrial business, which produces a wide range of metal fasteners, stampings, components and assemblies.

ITW spokesman, Timothy Johnson, says that the recent purchase improves ITW's presence and selling ability within the automotive fasteners market.

Thomas J. Hansen, vice president and general manager of Shakeproof-Industrial, adds that the move "will significantly improve Shakeproof's ability to serve industrial fastener distributors in the U.S."

The Mellowes Co., formerly a division of Charter Manufacturing, will continue to operate out of its Milwaukee headquarters. The firm's current management will stay in place. ID

There's a diamond in Kennametal's future

LATROBE, PA.—Kennametal Inc. and Japan-based Idemitsu Petrochemical Co., Ltd. have formed a joint venture company to explore diamond film technology.

Finalized in February, the joint venture company will develop, manufacture and eventually sell metalcutting inserts with thin-film diamond coatings. The coatings are created by a microwave-plasma-assisted chemical vapor deposition process developed by Idemitsu.

Bill Kennedy, Kennametal spokesman, says that the new venture combines Kennametal's tooling expertise with Idemitsu's pioneering work in the vapor phase synthesis of diamond coatings. Focused initially on producing and evaluating materials for difficult-to-machine metalworking, both companies have high hopes for the new technology.

"Although the commercial potential for diamond film is unclear at this point, we're confident," says

BUSINESS REPORT

By Paul Waters

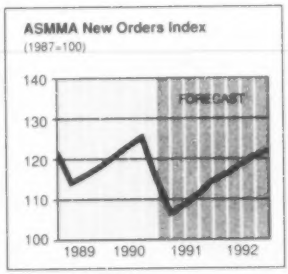
Construction gets in sync

Demand for materials erratic.

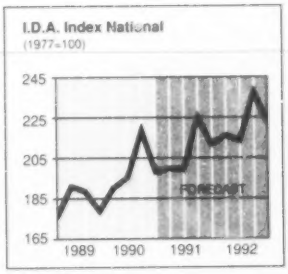
The U.S. economy is expected to give a weak performance this year. And most sectors of the construction industry will underperform the overall economy due to credit availability, weak consumer confidence, and the federal budget deficit.

Despite that dim outlook, reports of construction's demise are greatly exaggerated. The industry is simply restructuring to accommodate low levels of productivity increases and a slow growing work force.

Distributors serving the construction markets will see activity pick up in the second half. Total construction spending this year will inch up 0.2% on the strength of non-building (sewers, highways, etc.) construction. Residential and non-residential construction spending will slide 0.6% in '91 and housing starts will slip 3.1%.



Data source: ASMMA
Forecast source: Cahners Economics



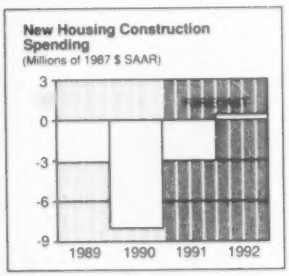
Data source: I.D.A.
Forecast source: Cahners Economics

Success in construction, however, will depend on identifying and reacting to new trends. The difference between this year and last is that the industry will be moving from the late stages of a downturn to the early stages of a rebound. For home building, the upturn is expected in the second quarter; for non-residential construction, it will occur late in the third quarter.

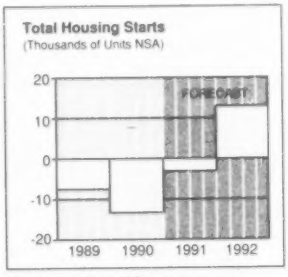
As the economy rebounds, the characteristics of construction projects tend to change. The housing industry takes on a different tone. During downturns, first-time home buyers account for a large share of home purchases. In the early stages of an upturn, low interest rates and higher confidence bring back the trade-up buyer.

Home remodeling will also change. With the economy weak, most spending by home owners has been on simple do-it-yourself projects around the home. As the economy rebounds, demand for larger home additions and alterations will pick up. Expect total remodeling expenditures to rise 2.4% this year, with the biggest increases coming in the replacement, additions and alterations segments.

The bottom line is that distributors will see demand for construction materials pick up in the second half. 1992 will be good to the construction industry, with housing starts rising 12.9% and non-residential construction spending up 4.7%. □



Data source: Dept. of Commerce
Forecast source: Cahners Economics



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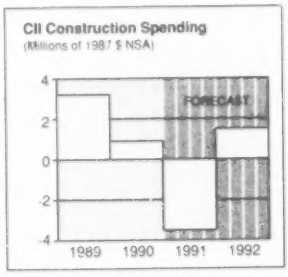

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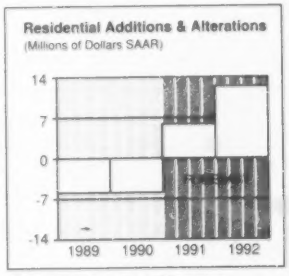

Data source: Department of Commerce
Forecast source: Cahners Economics

(1977=100)	SALES Mar. 1991	SALES Feb. 1991	SALES Mar. '91 vs Mar. '90 % change	RECEIVABLES Mar. 1991 days	INVENTORY Mar.-Feb. 1991 % change
TOTAL	203.3	218.7	9.1	43.0	0.4
EAST	197.6	210.1	26.9	46.0	−0.7
SOUTH	323.0	338.4	23.9	40.8	−0.4
CENTRAL	153.0	160.1	−4.4	45.8	1.0
WEST	205.4	225.9	3.1	36.7	1.6

SOURCE: Industrial Distribution Assn.